Lianhe Ratings Global

Non-Rating Commentary
19 February 2019

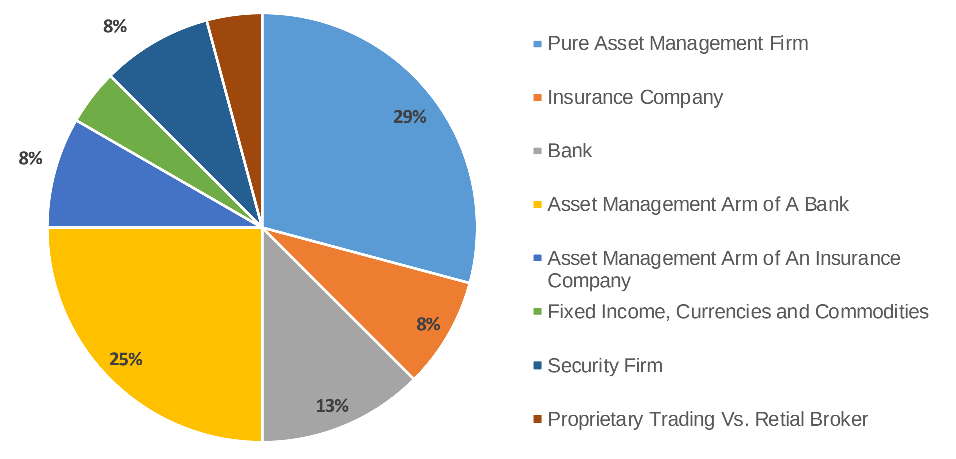
2019 Chinese Offshore USD Bond Investor Survey Report

Part A: Survey Population Characteristics

The 2019 Chinese offshore USD bond investor survey is based on the data and feedback collected from 24 one-on-one meetings with Chinese offshore USD bond investors in Hong Kong. The survey took place between the second and third week of January 2019. We have summarized the survey results in this report.

Most of the survey respondents are pure asset management firms or asset management arms of banks, accounting for 29% and 25% of the total respondents respectively. The remaining respondents include banks (13%), insurance companies (8%) and others (25%) (see Exhibit 1 below). 54% of the respondents have less than USD10 billion asset under management (AUM) while 25% of them have AUM over USD50 billion.

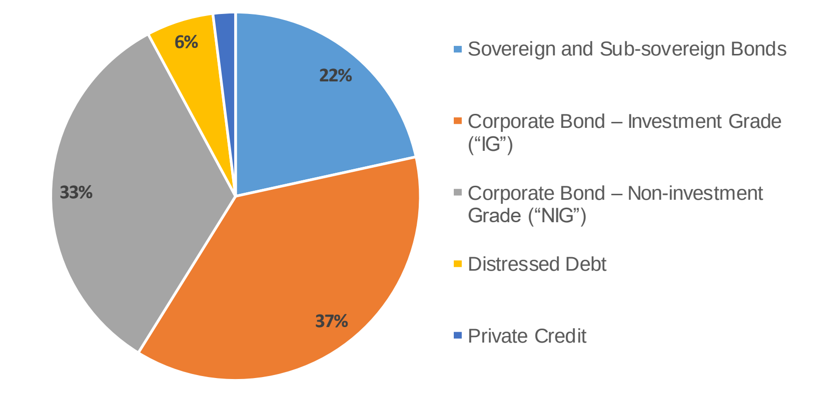
EXHIBIT 1: Business Type Breakdown



Source: Lianhe Global

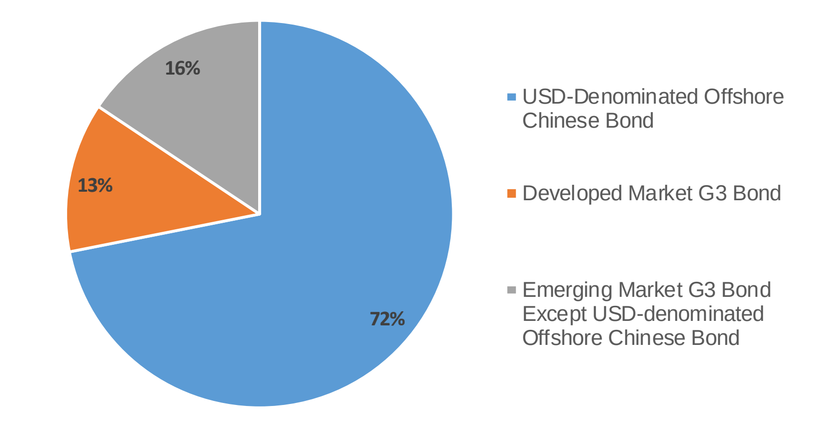
Most of the respondents focused on corporate bonds (70%) of which 37% focused on investment-grade bonds and 33% focused on non-investment grade bonds. 72% of the respondents primarily focused on USD-denominated offshore Chinese bonds. 46% of the respondents' portfolios had a duration of shorter than 3 years and 36% had a duration of between 3 to 7 years. The charts below (Exhibit 2-4) illustrate the respondents' investment focus by bond type, currency and portfolio duration.

EXHIBIT 2: Investment Focus in Terms of Bond Type



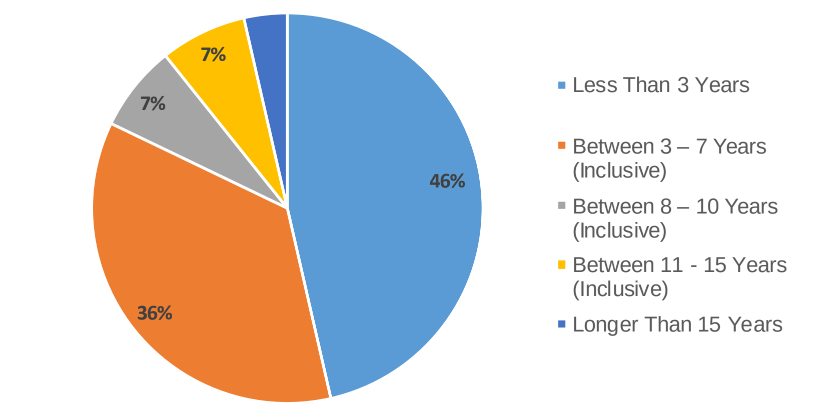
Source: Lianhe Global

EXHIBIT 3: Investment Focus in Terms of Currency



Source: Lianhe Global

EXHIBIT 4: Investment Focus in Terms of Portfolio Duration

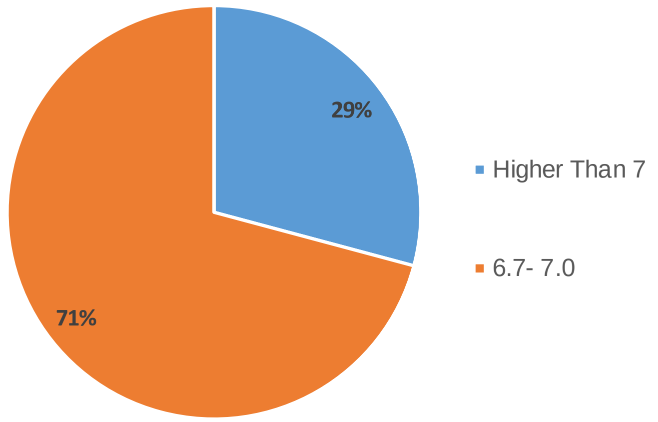


Source: Lianhe Global

Part B: Views on The Chinese Macroeconomic 2019 Outlook

79% of the respondents were somewhat pessimistic about China's economy for 2019. They believed its GDP growth rate would slow to between 6.0% and 6.5%. Only 4% of the respondents thought China's GDP growth rate would be higher than 6.5%. 71% of the respondents believed that the USD-CNY exchange rate would fluctuate between 6.7 and 7.0 in 2019 (see Exhibit 5 below).

EXHIBIT 5: Expectations on USD-CNY Exchange Rate in 2019



Source: Lianhe Global

In terms of home prices in different regions in China, most of the respondents believed that the general trend of home prices would be stable, among which the home prices in first-tier cities would be stable, and the prices in second- and third-tier cities might fall.

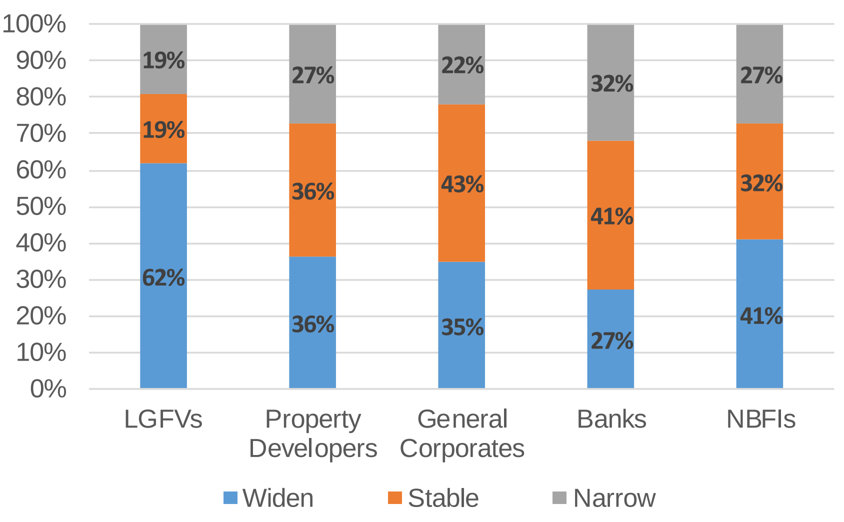
Part C: Views on Chinese Offshore USD Bond Market

The respondents were asked to provide their views on the following market events' impacts on the credit conditions of Chinese issuers on the selected sectors: (1) the US-China trade dispute, (2) the ongoing deleveraging efforts, (3) restrictions on property developers' usage of offshore funding proceeds to refinance matured debt only and (4) tightened regulations on LGFVs' bond issuance. (The selected sectors are: LGFVs, property developers, general corporates, banks and non-bank financial institutions (NBFIs))

Most of the respondents believed that the US-China trade dispute and the ongoing deleveraging efforts caused accelerated onshore defaults which had negative impacts on the credit conditions of all the selected sectors. However, they maintained a neutral view on the restricted use of proceeds for the property sector but reckoned the tightened regulation on LGFVs' offshore bond issuance was credit negative for the LGFV sector.

The respondents were asked about their expectations of spread movements in the selected sectors. The majority thought the spread would widen for the LGFV sector. For the remaining sectors, opinions were almost evenly distributed among widening, stable and narrowing (see Exhibit 6 below).

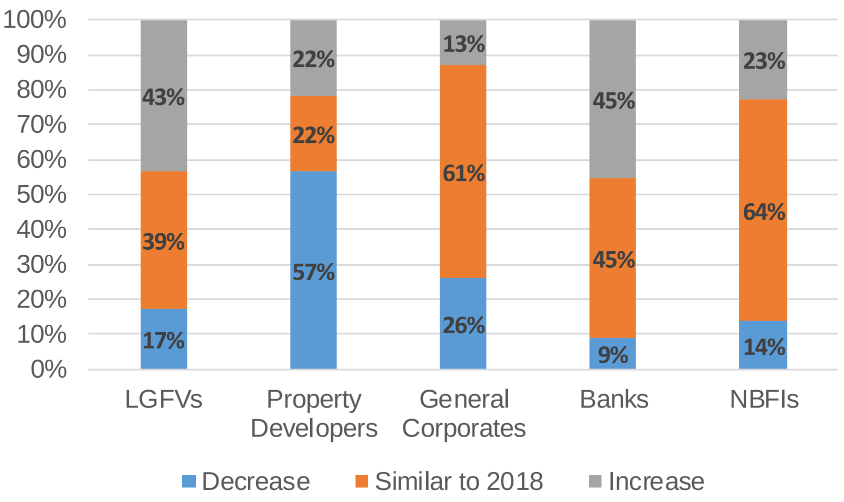
EXHIBIT 6: Expectations on Spread Movements in 2019



Source: Lianhe Global

Most of the respondents expected that the new issuance volume of USD-denominated offshore Chinese bonds in general corporate and NBFI sectors in 2019 would be similar to that in 2018. They also believed that the issuance volume in the LGFV and bank sectors would not fall while the issuance volume in the property sector might decline in 2019 (see Exhibit 7 below).

EXHIBIT 7: Expectations on Chinese Offshore USD Bond Issuance Volume in 2019

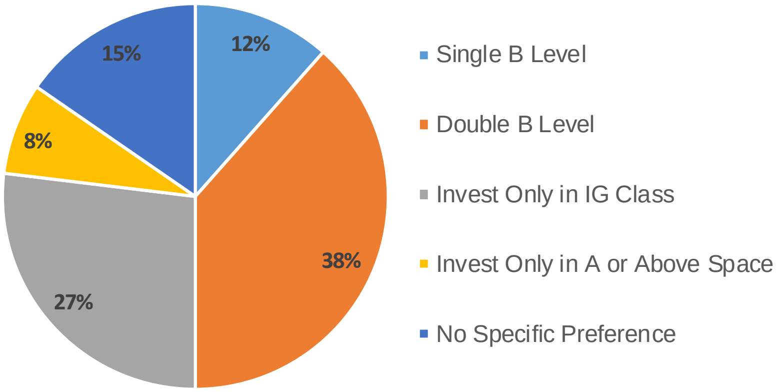


Source: Lianhe Global

Part D: Investment Strategy in Chinese Offshore USD Bond Market

52% of the respondents planned to maintain their investment portfolios' current durations. The remaining opinions were evenly distributed between "increasing and decreasing their durations". Chinese offshore USD bonds within the BB credit rating category were most popular among the respondents while 27% said they would only invest in investment-grade bonds in 2019 (see Exhibit 8 below).

EXHIBIT 8: Investment Preference in Terms of Ratings in 2019

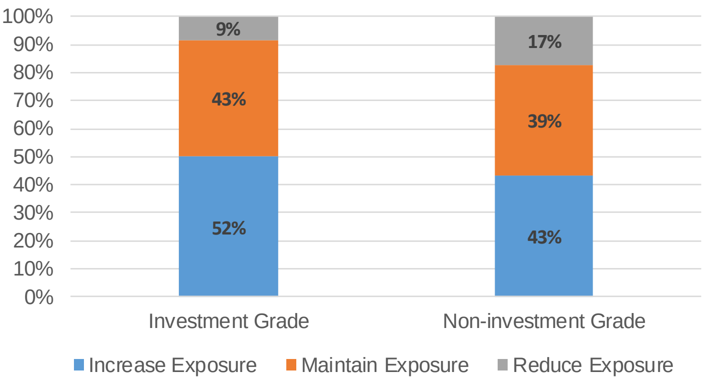


Source: Lianhe Global

Most of the respondents said they would not invest in certain areas of China where the bond issuers are located in: 44% of them would not consider the Northeast region, and 15% would not consider the Western region in China. Only 33% said they have no investment restriction in terms of geographic constraints.

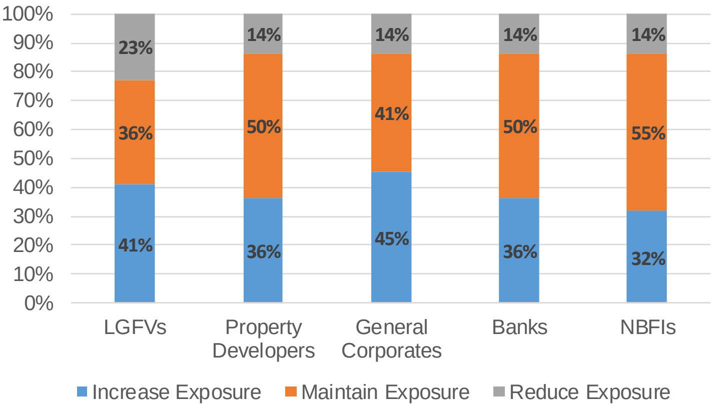
The majority of the respondents indicated that they intended to increase or at least maintain their exposures to both investment-grade and non-investment grade bonds in 2019. For investment-grade bonds, only a handful of the respondents planned to reduce exposures to the selected sectors. However, for non-investment grade bonds, the respondents intended to maintain or reduce their exposures in the LGFV, general corporate, bank and NBFI sectors, but increase or maintain their exposures in the property sector. The charts below (Exhibit 9-11) illustrate the respondents' investment preferences in 2019.

EXHIBIT 9: Investment Strategy in Chinese Offshore USD Bond Market in 2019



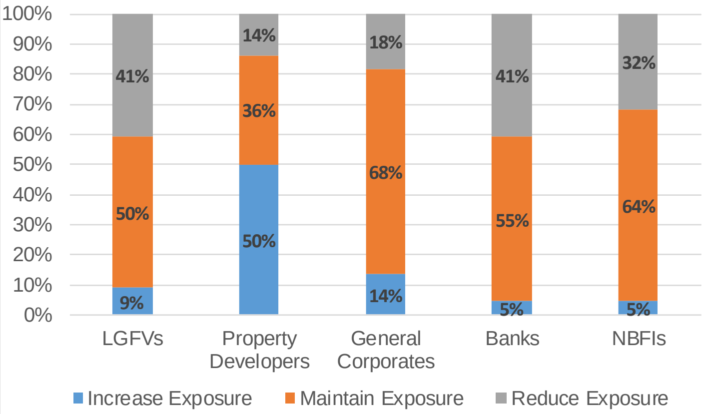
Source: Lianhe Global

EXHIBIT 10: Investments in IG Chinese Offshore USD Bond Market in 2019



Source: Lianhe Global

EXHIBIT 11: Investments in NIG Chinese Offshore USD Bond Market in 2019



Source: Lianhe Global

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